

BEFORE THE  
POSTAL REGULATORY COMMISSION  
WASHINGTON, D.C. 20268-0001

STATUTORY REVIEW OF THE SYSTEM  
FOR REGULATING RATES AND CLASSES  
FOR MARKET DOMINANT PRODUCTS

Docket No. RM2017-3

**NOTICE OF SUPPLEMENTAL INFORMATION**  
(August 10, 2017)

In the comments that the Postal Service filed in this proceeding on March 20, 2017, it included various estimates of annual post-retirement benefits payments that have a material bearing on the Postal Service's financial stability.<sup>1</sup> The Postal Service also detailed its assumption that the Office of Personnel Management (OPM) would amortize the \$33.9 billion balance in missed retiree health benefits (RHB) prefunding payments and its expectation that OPM would clarify the matter in the coming months.<sup>2</sup> This notice is to provide the Commission and other participants in this proceeding with accurate, up-to-date information on these pertinent matters.

On July 30, OPM invoiced the Postal Service for its FY2017 RHB obligations. OPM states that the Postal Service owes approximately \$3.3 billion in normal costs and an amortization payment of approximately \$1.0 billion, for a total of approximately \$4.3 billion in new payments.<sup>3</sup> Contrary to the expectation reflected in the Postal Service's comments, OPM has determined that the full \$33.9 billion unpaid balance remains due.

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<sup>1</sup> Comments of the United States Postal Service, PRC Docket No. RM2017-3 (Mar. 20, 2017), at 140.

<sup>2</sup> *Id.* at 140 fn.269.

<sup>3</sup> The Postal Service is no longer responsible for paying RHB premiums, and the schedule of fixed payments from FY2007 to FY2016 has now ended. 5 U.S.C. §§ 8906(g)(2)(A), 8909a(d)(3).

Therefore, OPM has not established a formal amortization schedule for the amount. Nor has OPM included it in the amortization of the remaining unfunded liability; hence, the \$1.0 billion amortization payment only relates to the unfunded liability left over after subtracting the \$33.9 billion from the accrued actuarial liability. Instead, OPM states that full payment of the past-due balance is owed, in addition to the RHB normal cost and amortization payments.

On June 28, OPM invoiced the Postal Service for its FY2017 Civil Service Retirement System (CSRS) amortization payment. OPM calculated the payment as approximately \$1.7 billion, which is higher than previously anticipated because of changes made by OPM's Board of Actuaries to the actuarial assumptions used to calculate the liability.

Copies of both OPM invoices are attached to this notice. As noted in the CSRS invoice letter, OPM will calculate the Postal Service's Federal Employees Retirement System (FERS) liability in September. The Postal Service will further update the record of this proceeding when that determination is received.

Respectfully submitted,

UNITED STATES POSTAL SERVICE

By its attorneys:

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August 10, 2017



# UNITED STATES OFFICE OF PERSONNEL MANAGEMENT

Washington, DC 20415

**JUL 30 2017**

Chief Financial  
Officer

Joseph Corbett  
Chief Financial Officer  
Executive Vice President  
United States Postal Service  
475 L'Enfant Plaza SW – Room 8021  
Washington, DC 20260-8021

Dear Mr. Corbett:

OPM is required by statute to compute by June 30, 2017, the net present value of the future payments required under section 8906(g)(2)(A) and attributable to the service of Postal Service employees during the most recently ended fiscal year. Statute also requires that OPM determines, by June 30, 2017, the amount of the U.S. Postal Service (USPS) unfunded liability for Federal Employees Health Benefits (FEHB) as of September 30, 2016. The unfunded liability is required to be amortized with initial payment by September 30, 2017, to provide for liquidation of the liability by September 30, 2056. The USPS is required to pay the amounts determined by OPM to the Postal Service Retiree Health Benefits Fund (PSRHBF) no later than September 30, 2017.

OPM has determined the amount payable by USPS to the PSRHBF by September 30, 2017, to be \$4,260,220,815. This amount consists of the participant normal cost (\$3,305,154,944) and the amortization of the unfunded liabilities (\$955,065,871), which are due and payable by September 30, 2017.

The actuarial liabilities are determined consistent with the assumptions and methodology used by the Office for financial reporting under subchapter II of chapter 35 of title 31. These include demographic assumptions and economic assumptions that have been revised from the previous valuation. The long term economic assumptions are: a single equivalent discount rate of 3.7% derived from a yield curve based on the average of the last 40 quarters through March 2017, and a variable trend that begins at 4.9% decreasing to an ultimate rate of 3.4%.

The \$3,305,154,944 net present value of the future payments required under section 8906(g)(2)(A) and attributable to the service of Postal Service employees during the most recently ended fiscal year is calculated by multiplying the Per participant Normal Cost of \$7,696 by 429,464 total Postal Active Participants.

The FEHB unfunded liability of \$19.8 billion as of September 30, 2016, results in the establishment of a schedule of 40 equal annual payments of \$955,065,871 beginning on September 30, 2017, as amortized at the valuation interest rate of 3.7%. The FEHB unfunded liability of \$19.8 billion as of September 30, 2016 was calculated as follows.

(dollars in billions)	
P.V. USPS Share of Future Benefits:	\$148.7
- P.V. Future Normal Payments:	\$39.9
Accrued Liability:	\$108.8
- Value of Invested PSRHBF Assets:	\$51.9
- Past Due Payments	\$33.9
- 9/30/2016 Normal Payment	\$3.3
<u>Unfunded Liability:</u>	<u>\$19.8</u>

USPS is required to pay \$4,260,220,815 to the PSRHBFB no later than September 30, 2017. In addition, USPS is required to pay \$33.9 Billion to the PSRHBFB for amounts past due from previous fiscal years.

Any questions regarding these matters should be directed to Tonya Johnson, Associate Chief Financial Officer, Financial Services, (202) 606-1531.

Sincerely,

A handwritten signature in black ink, appearing to read "Dennis D. Coleman", with a long horizontal flourish extending to the right.

Dennis D. Coleman  
Chief Financial Officer



UNITED STATES OFFICE OF PERSONNEL MANAGEMENT

Washington, DC 20415

**JUN 28 2017**

Chief Financial  
Officer

Joseph Corbett  
Chief Financial Officer  
Executive Vice President  
United States Postal Service  
475 L'Enfant Plaza SW – Room 8021  
Washington, DC 20260-8021

Dear Mr. Corbett:

OPM is required by statute to make an annual determination of the supplemental liability of the United States Postal Service (USPS) for the Civil Service Retirement System (CSRS). Specifically, the statute provides that by June 15, 2017, OPM must determine the amount of the funding payment for the CSRS required from the USPS. There was no such CSRS supplemental liability payment due from the USPS for prior years.

Section 8348(h) of Title 5, U.S.C. provides that OPM will determine, by June 15, 2017, the amount of the USPS supplemental liability for CSRS as of September 30, 2016. The supplemental liability is required to be amortized with initial payment by September 30, 2017, to provide for liquidation of the liability by September 30, 2043.

OPM has determined that the USPS supplemental liability for CSRS under Section 8348(h) of Title 5, U.S.C., is \$26.9 billion as of September 30, 2016. This supplemental liability consists of an actuarial liability of \$199.3 billion as of September 30, 2016, less an asset balance of \$172.4 billion (at par value). The actuarial liability is determined according to the actuarial assumptions recommended at the June 1, 2017 meeting of the Civil Service Retirement System Board of Actuaries. These include demographic assumptions and economic assumptions that have been revised from the previous valuation. The long term economic assumptions are: 4.50% interest, 2.50% inflation, and 2.75% general salary increase. A general salary increase of 2.10% is assumed for FY 2017.

The CSRS supplemental liability of \$26.9 billion as of September 30, 2016, results in the establishment of a schedule of 27 equal annual payments of \$1,740,954,000 beginning on September 30, 2017, as amortized at the valuation interest rate of 4.50%.

USPS is required to pay \$1,740,954,000 to the CSRDF no later than September 30, 2017.

Please be advised, that OPM will determine the USPS supplemental liability for the Federal Employees' Retirement System (FERS) in September 2017. At such time, OPM will determine an amortization schedule for FERS payments beginning September 30, 2017, in addition to the previously scheduled amortization amounts.

Any questions regarding these matters should be directed to Tonya Johnson, Associate Chief Financial Officer, Financial Services, (202) 606- 1531.

Sincerely,

Dennis D. Coleman  
Chief Financial Officer